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WHO'S NEXT?
20 TAKEOVER CANDIDATES

HOW TOYS "R" US CH... THE COMPETITION

FEBRUARY 22, 1988 THREE DOLLARS SEVENTY-FIVE CENTS

Forbes

THE '88 OLYMPICS

CAN SOUTH KOREA HANDLE IT?

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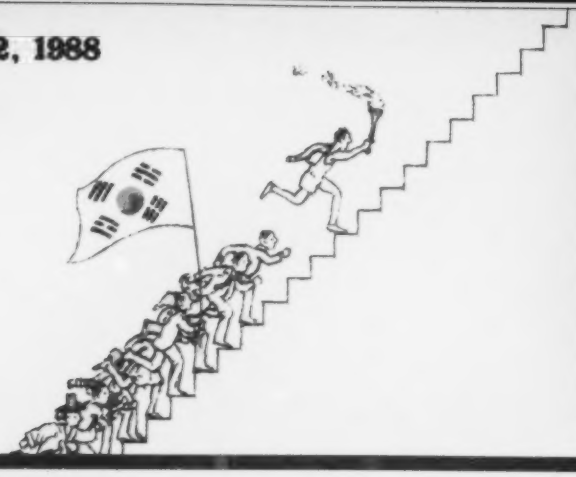
chas slarkman

Forbes

FEBRUARY 22, 1988
VOLUME 141
NUMBER 4



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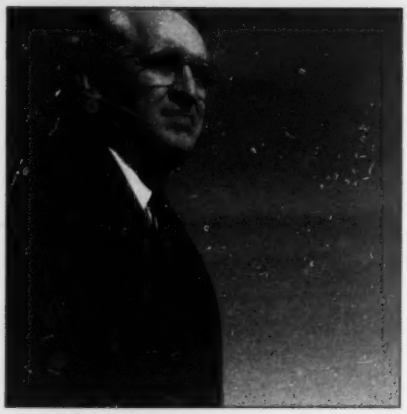

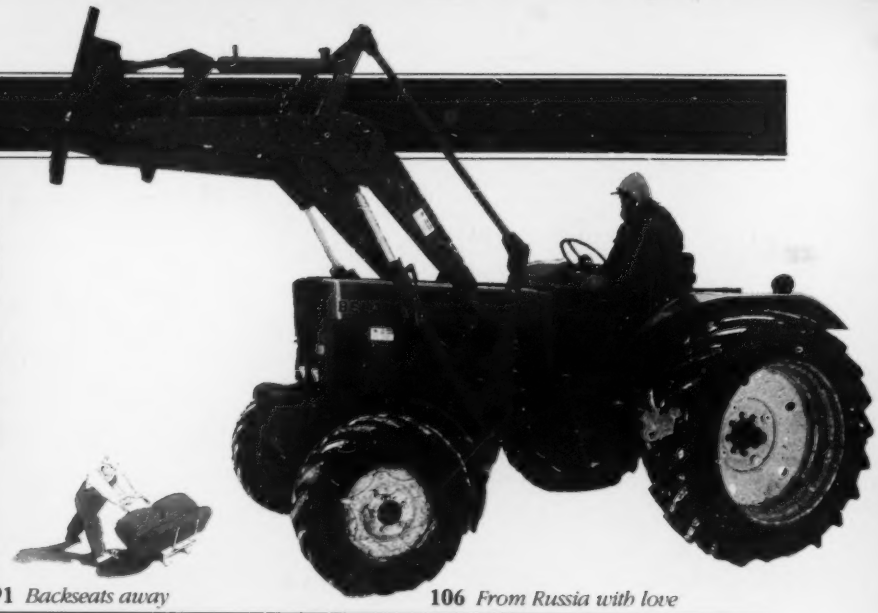

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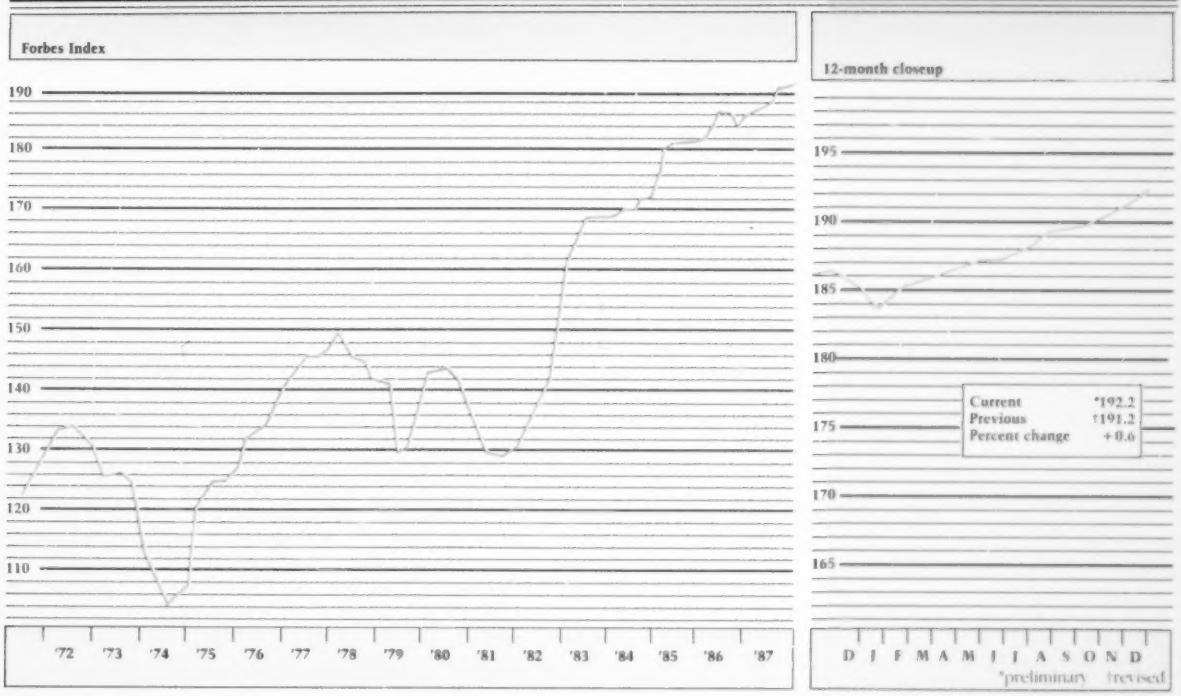
The Forbes Index



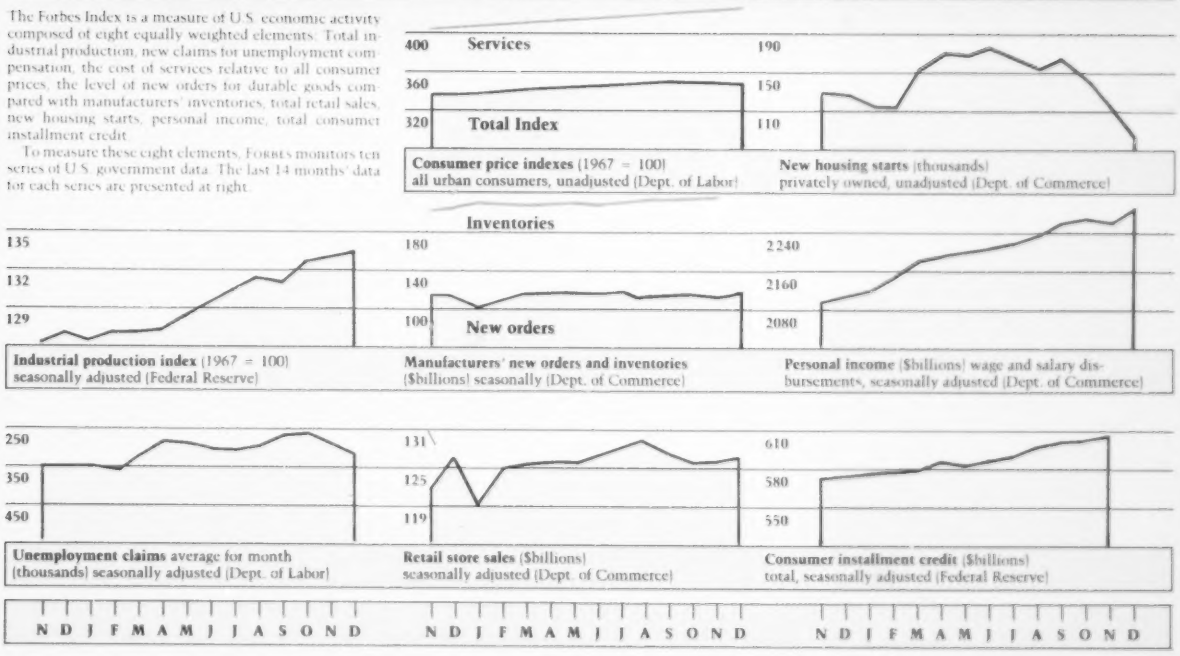
The economy is not dead in its tracks. The preliminary report on the U.S. gross national product shows economic growth at an inflation-adjusted 4.2% rate for the fourth quarter and a 2.9% rate for all of 1987. Manufacturers' new orders shot up 6.7% in December. Personal income rose 1.1% in December.

But some economic caution lights are glowing. The Consumer Price Index rose 4.4% in 1987, vs. 1.1% in 1986. Housing starts were 25.4% lower in December 1987 than in December 1986. This comes despite a 0.4-percentage-point decline over the 12 months in average mortgage rates. Unemployment levels are at their lowest in years, but the trailing-six-month total of new unemployment filings was up 0.5% from November to December.

The Forbes Index Components

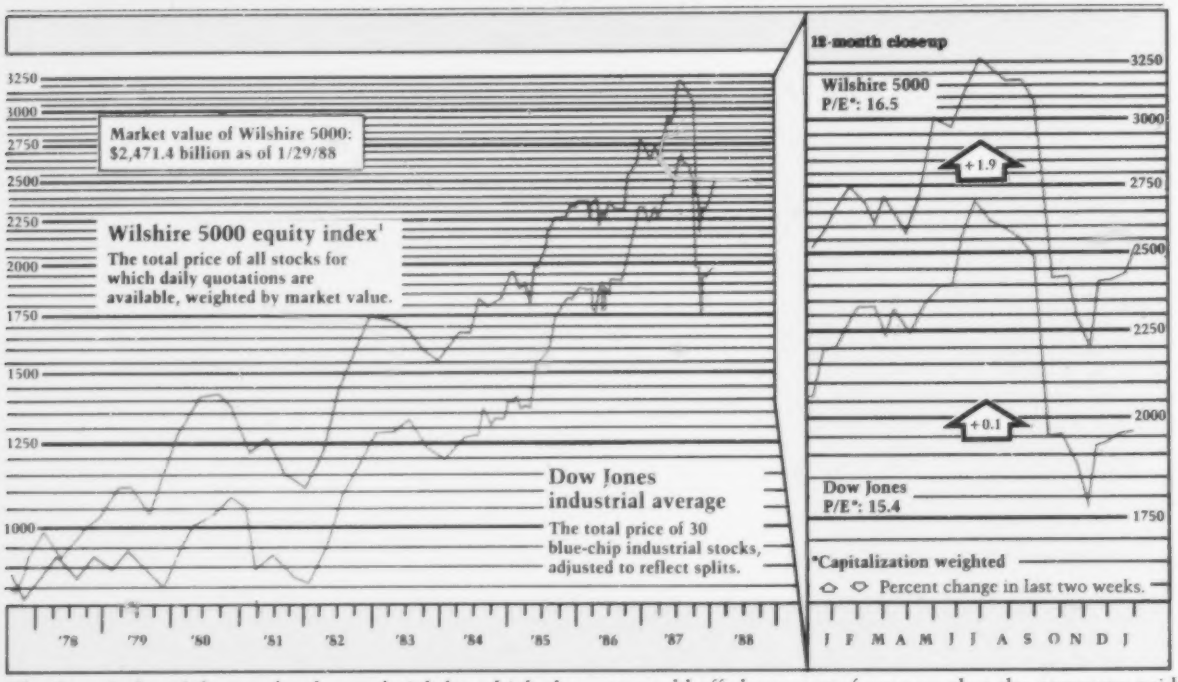
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


400
360
320
Services
Total Index
190
150
110
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
Inventories
135
132
129
180
140
100
New orders
2240
2160
2080
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
131
125
119
610
580
550
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
N D J F M A M J J A S O N D
N D J F M A M J J A S O N D
N D J F M A M J J A S O N D

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market value of Wilshire 5000: $2,471.4 billion as of 1/29/88
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
3250
3000
2750
2500
2250
2000
1750
1500
1250
1000
'78 '79 '80 '81 '82 '83 '84 '85 '86 '87 '88
12-month closeup
Wilshire 5000 P/E*: 16.5
+1.9
+0.1
Dow Jones P/E*: 15.4
*Capitalization weighted
Percent change in last two weeks.
J F M A M J J A S O N D J

The Dow industrials may be the yardstick by which the market is measured, but when one of the 30 stocks in this average makes a major move, it can distort the end result. Such is the case in the latest two-week period, in which the Dow closed with only a 0.1% gain while the NYSE was up 2.1% and the overall market—as measured by the Wilshire index of more than 5,700 securities—showed a 1.9% increase. What brought down the Dow? Eastman Kodak, which fell 16% in the last ten trading days. Investors sold off shares out of concern that the company paid too dear a price for Sterling Drug.

In the postcrash market, the Wilshire index hit its highest P/E, 16.9, early in November. With the latest rise in stock prices, the P/E multiple on the Wilshire index is back up to 16.5 times latest 12-month earnings. It seems that a P/E of 17 for the Wilshire has become as difficult a goal as the 2,000 level is for the Dow industrials. But crossing these points would be a bullish sign.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	4.2	4.7	1.0	4.3	3.4	4.3
in last 52 weeks	–8.2	–7.1	–9.3	–7.7	–10.4	–12.1

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	4.9	15.4	19.8	8.9	4.4	10.3	8.6	11.9	17.8	6.8	4.6	18.1
in last 52 weeks	–5.2	12.3	17.1	6.4	–9.9	–6.9	–5.9	22.3	18.7	–1.9	–4.2	11.1

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

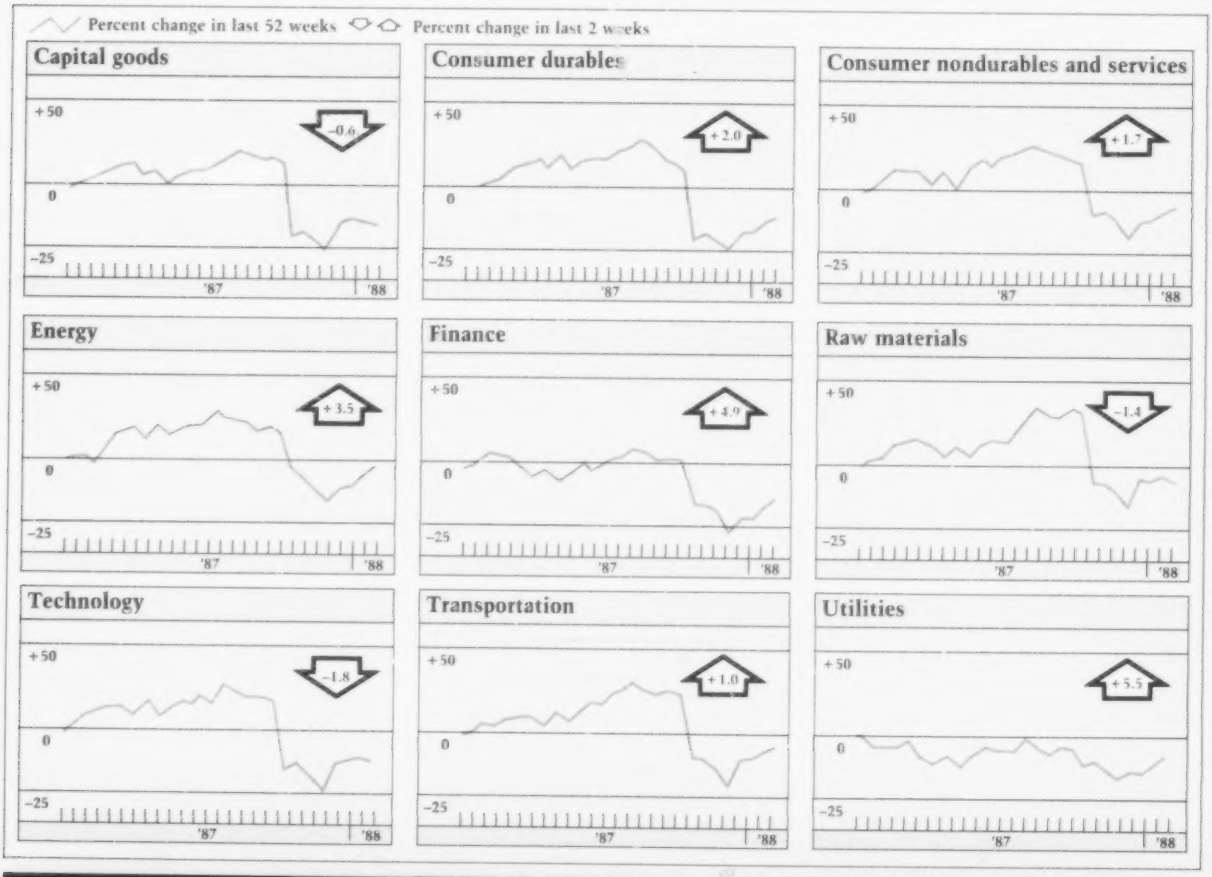
Note: All data for periods ending 1/29/88. Prepared by Wilshire Associates, Santa Monica, Calif. ■

Gay French

Where the Action Is

Utility stocks lit up the wires with a 5.5% two-week gain, vs. 1.9% for the Wilshire index. Leading this diverse group with a 15% increase was United Telecommunications. Its joint venture with GTE in US Sprint made Sprint the third-largest long-distance carrier in the U.S., after AT&T and MCI. Regulated carriers recently won an appeal regarding customer refunds for disputed charges, and this helped buoy UT. The second-best-performing utility stock was Metro Mobile CTS, which rose on speculation over takeovers of cellular phone systems.

During the last two weeks some electric utilities also posted strong gains. Montana Power was up 13.7%. Dominion Resources and El Paso Electric also scored double-digit increases.



What the Analysts Think

Is the worst over for transportation companies? After weeks of cutting their 1988 earnings forecasts for transportation issues, security analysts now show a slight increase in their overall projection for this group. Among the stocks with higher forecasts: CNW, KLM Royal Dutch Airlines, Kansas City Southern, Arkansas Best and NWA.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.40	15.7
1988 estimates	3.54	10.6
1989 estimates	NA	NA

NA: Not available.

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Consumer durables	$3.84	12.1	2.30%	2.57%
2	Capital goods	2.53	14.0	0.96	1.31
3	Raw materials	2.85	11.0	0.36	0.52
4	Transportation	2.53	11.7	0.02	-0.33
5	Utilities	3.04	10.1	-0.35	-0.44
6	Consumer nondurables	2.56	12.5	-0.36	-0.63
7	Technology	2.93	11.0	-0.39	-0.57
8	Energy	2.96	12.7	-0.81	-1.27
9	Finance	3.61	7.5	-1.53	-2.27

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 1/29/88. Prepared by Wilshire Associates, Santa Monica, Calif. IBES, a service of Lynch, Jones & Ryan, New York.

Can a commodity market letter help you make money? Yes, if you choose wisely and follow its advice rigorously.

MAILBOX MENTORS

By Stanley W. Angrist

It's time for our annual look at how well commodity market letters served their subscribers in the previous year. By and large they did better than usual, but that's not much to brag about.

Nine of the 26 market letters tracked by *Commodity Traders Consumer Report* lost money or showed negligible profits last year. That made 1987 the best year for market letters since *CTCR* began tracking them in 1983. In previous years about half of all the newsletters followed lost money.

It's certain that a lot of subscribers of even the best-performing market letters lost money last year. Why? Blame it on human nature, or maybe just ego, or whatever it is that causes so many traders to pick and choose among a market letter's recommendations without discipline—acting on certain trades and ignoring others. The ones they choose invariably turn into losers, or so it seems, and the ones they ignore are big winners. They then complain that the letter writer is incompetent. Common sense says that if you want to achieve the same results as the market letter, you had better follow all of the suggestions.

The performance of all the letters evaluated by *CTCR* last year was profoundly influenced, of course, by the October selloff. Those letter writers who were short or had bought puts did extremely well. The longs got killed. The top two services for the year, and five of the top eight, were short stock futures on Oct. 19. So it goes in commodity trading—a few large winners each year pay for the losers and provide the profit. That's why few savvy traders place much importance on the *percentage* of profitable trades.

What should you look for in a market letter? Consistency. You want a service that has proved itself profitable in both bull and bear markets. You also want a letter whose trading style fits your needs. Do the trades seem unnecessarily risky to you? Are the stops too far from the market for your taste? Then pick another letter, no matter how impressive that letter's track record.

Of the eight letters listed in the table, only the *Elliott Wave Theorist* has a *CTCR* record that goes back four years. To calculate the return on margin, *CTCR* used exchange minimum margins, which are not available to most traders. In order to make the calculation more closely approximate the conditions under which most traders operate, these minimum margins were doubled.

You can get more detailed reports on the letters listed by subscribing to *CTCR* (telephone: 916-677-7562). Most market letters will also provide you with a sample copy or two before you subscribe.

A perennial favorite of spread traders in the grain market around this time of year is corn versus oats. In setting up this spread, one must take into account the fact that a bushel of corn averages 56 pounds, a bushel of oats only 32 pounds. Thus this seasonal spread is normally set up by buying one May corn contract while selling two May oats.

To place the current spread in perspective, consider that in January the value of the two oats contracts exceeded the value of the corn contract by $8,000. In the previous 13 years that number had not been larger than $7,000.

The trade has worked in 11 of the last 13 years, producing an average profit of $600. The worst loss in that stretch was $1,138. The biggest drawdown was $1,926, with an average of only $600. The exchange minimum margin on the trade is $500. Risk no more than $600 on the trade and look for a $600 profit, or exit by Mar. 31. ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

Nothing to brag about

Successful traders will seek out market letters that have been consistently profitable over time. Herewith, a scorecard. Greater detail on these and other letters is available from *Commodity Traders Consumer Report*.

Market letter	—Profit per trade— 1987	1986	1985	—Profitable trades— 1987	1986	1985	—Return on margin— 1987	1986	1985
Braun's Systems	$2,116	$–1,174	$–1,242	57%	49%	26%	192%	–79%	–163%
Timing Device	936	772	—	32	38	—	31	107	—
Elliott Wave Theorist	635	669	9	44	59	42	62	82	2
DeMark Futures	437	497	114	45	53	51	93	115	77
Wash'ton Econometrics	380	—	—	48	—	—	87	—	—
Tomorrow's Comms	346	16	109	27	32	48	21	4	20
Weiss Research	336	–205	–149	38	29	33	116	–112	–64
Futures Factors	323	65	206*	45	42	36*	84	31	106*

*Record for only four months (In computing profit per trade, $100 has been deducted to allow for commissions and slippage.)